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Fiscal Outlook Report

Executive Summary

Table 1 summarizes the main results of the sixth edition of the Fiscal Outlook Report regarding medium-term projections for the Brazilian fiscal scenario. The projections for 2025 to 2035 consider the macroeconomic scenario prepared by the Economic Policy Secretariat of the Ministry of Finance (SPE/MF) in May 2025, as well as the rules of the Sustainable Fiscal Regime - SFR (Complementary Law No. 200, of August 30, 2023).

Table 1 – Summary of fiscal forecasts in the reference scenario (% of GDP)
Source: Prepared by the authors

Discrimination	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public Sector Primary Balance	-0.4	**-0.3**	**-0.2**	**0.5**	**1.0**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**
Central Governmet	-0.4	**-0.4**	**-0.2**	**0.5**	**1.0**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**
Net Revenue	18.4	18.5	18.8	18.8	19.0	19.1	19.1	19.0	19.0	18.4	18.0	17.5
Total Expenditure	18.8	18.8	19.0	18.3	18.0	17.8	17.8	17.8	17.7	17.2	16.7	16.3
Regional Governments	0.0	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Federal State Enterprises	-0.1	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**	**-0.0**
Interest Payments	8.1	**8.5**	**8.1**	**7.3**	**6.4**	**6.0**	**5.9**	**5.8**	**5.7**	**5.7**	**5.6**	**5.7**
Public Sector Overall Balance	-8.5	**-8.8**	**-8.3**	**-6.9**	**-5.4**	**-4.8**	**-4.7**	**-4.5**	**-4.5**	**-4.5**	**-4.4**	**-4.4**
General Government Net Debt	63.4	**67.5**	**70.2**	**71.4**	**71.7**	**71.5**	**71.3**	**71.1**	**70.9**	**70.7**	**70.4**	**70.2**
General Government Gross Debt	76.5	**79.0**	**82.3**	**83.9**	**84.3**	**84.1**	**84.0**	**83.9**	**83.7**	**83.5**	**83.2**	**82.9**

Note: The primary balance is presented following the "above the line" concept. which is more relevant for discussing its components and the fiscal events covered in this report. The overall balance is presented using the "below the line" concept, as it is the most appropriate for comparing with fiscal statistics relating to public debt. Any differences between the sum of the primary deficit with the interest payments and the overall balance will be due to statistical discrepancies eventually addressed in appropriate sections of the report.

The macroeconomic scenario underpinning this report maintains an average real GDP growth of 2.7% per year from 2025 to 2035, with an average nominal wage bill growth of 8.1% per year. The Selic rate is expected to decrease until 2031 and then stabilize at 6.4% per year.

In the reference scenario of this report, the net primary revenue forecast begins with the estimates of the Primary Revenue and Expenditure Assessment Report (RARDP) for the 2nd bimester of 2025, updated with recent developments in the IOF and Provisional Measure (PM) No. 1,303, of June 11, 2025. After reaching 18.5% of GDP in 2025, net revenue rises until 2029 when it reaches 19.1% of GDP. From then on, a downward trajectory ensues, ending 2035 at 17.5% of GDP. This evolution assumes that additional revenue measures may be proposed to align revenue with the trajectory for primary expenses, ensuring the achievement of fiscal targets. Thus, the exercise estimates the additional revenue effort that may be necessary to achieve the primary balance targets defined in the Budgetary Guidelines Law - PLDO 2026, namely: 0.0% of GDP in 2025, 0.25% of GDP in 2026, 0.5% of GDP in 2027, 1.0% of GDP in 2028, and 1.25% of GDP in 2029, assuming that this level will also be maintained from 2030 onwards.

Regarding primary expenditure, the forecast uses the 2nd RARDP of 2025 as a base and projects its evolution according to the SFR rules. Under these rules, the real growth of the expense limit matches a proportion of the real growth of the Adjusted Net Revenue (RLA), constrained by the upper and lower growth limits of 2.5% and 0.6%, respectively. To this dynamic, we add projections of expenses not subject to the limit. As a result, in the reference scenario, primary expenses start at 18.8% of GDP in 2025 and reduce until reaching 16.3% of GDP in 2035. This reduction becomes more pronounced from 2027, when all expenses with judicial claims payments are included in the expense limit. However, this decrease is partially offset by the impact of tax reform funds, starting in 2029, whose effect is included in this report.

Mandatory expenses subject to the spending limit are projected to grow at an average real rate of 2.9% per year between 2025 and 2035, with emphasis on the increasing evolution social security benefits of the General Social Security System - RGPS, Continuous Benefit Provision - BPC, cost and capital judicial claims, and expenses associated with minimum spending threshold in health and education. As a reflection of this average growth higher than the upper limit allowed by the SFR (2.5%), discretionary expenses are reduced in the projection horizon. This reduction accelerates from 2027, with the inclusion of all judicial claims payments in the expense limit.

The reference scenario presents a Central Government primary balance sufficient to meet fiscal targets, reaching a deficit of 0.4% of GDP in 2025, considering that expenses with judicial claims payments exceeding the sub-ceiling are exceptionalized for the purposes of calculating fiscal targets. It is worth noting that the 2nd bimester RARDP predicted a deficit of 0.6% of GDP for 2025, taking into account a discretionary expenditure contingency of R$ 20.7 billion, respecting the lower limit of the primary balance target band defined in the LDO 2025, but the reference scenario assumes that new efforts can be made to pursue the center of the target. In 2026, a Central Government primary deficit of 0.2% of GDP is projected, also considering the exceptionalized expenses. From 2027, an upward trajectory of primary surpluses is expected, following fiscal targets, rising from 0.5% of GDP in 2027 to 1.25% of GDP in 2029. For 2030 to 2035, according to the PLDO 2026, it is assumed that the level of 1.25% of GDP for the Central Government primary balance will be maintained.

Regarding the evolution of public debt, the reference scenario forecasts indicate that the General Government Gross Debt – GGGD and the General Government Net Debt – GGND reach, at the end of 2025, 79.0% and 67.5% of GDP, respectively. The GGGD presents an upward trajectory until it reaches 84.3% of GDP in 2028. In 2029, it begins a downward trajectory until the end of the forecast horizon, in 2035, when it reaches 82.9% of GDP. The GGND follows a similar trajectory, also growing until 2028, then starting a downward trajectory in the following years, reaching 70.2% of GDP in 2035.

Due to the higher level of nominal interest rates and the primary deficit, the GGGD should register an increase of 2.5 percentage points of GDP in 2025 compared to 2024, despite the contribution of GDP growth slowing this increase. The upward shift in the GGGD trajectory relative to the last report is due to the difference in the macroeconomic scenario, with higher interest rates, exchange rates, and inflation. Primary surpluses have also become lower, due to the assumption of following the PLDO 2026 Central Government primary balance scenario of 1.25% of GDP starting in 2029.

The report analyzes the primary balances needed by the Central Government for the convergence of the GGGD in different scenarios. In the first exercise, the aim is to stabilize the GGGD/GDP ratio at the 2024 level throughout the entire projection horizon. To maintain debt at 76.5% of GDP in all years, the fiscal effort would be 0.5 percentage points higher than projected in the reference scenario. In another set of exercises, a constant delta is applied to the primary balance of the reference scenario so that GGGD assumes a gradually decreasing trajectory until it reaches the 2024 level at the end of the forecast horizon, under different starting years.

The report also presents the baseline scenario. In this scenario, revenue projections incorporate only existing legislation. Comparing the baseline and reference scenarios allows us to quantify the additional fiscal effort required to meet the primary balance targets defined in the PLDO 2026, including all repercussions on expenses. With more conservative assumptions, as it does not incorporate measures still pending legislative approval, the baseline scenario generates lower primary balances than those observed in the reference scenario, causing the GGGD to grow for a longer period and end 2035 at 89.0% of GDP, against 82.9% of GDP in the reference scenario (a difference of 6.1 GDP percentage points).

As an alternative to using the reference scenario, this report presents the evolution of the GGGD using the median forecasts from Central Bank's Focus survey for macroeconomic variables and Public Sector Primary Balance.

Shocks in economic variables can considerably change the future trajectory of debt. In this sense, the report also presents comparative static exercises to illustrate how public debt forecasts change when key variables, such as real GDP growth, primary balance, and interest rate, deviate from the reference scenario throughout the horizon.

Finally, the report presents stochastic simulations for the GGGD and the GGND, using confidence intervals that consider shocks in GDP and primary balance. This analysis highlights the uncertainty in the debt trajectory, especially in scenarios above the average, which expose the debt/GDP to risks that can deviate the variables from their reference scenario, making fiscal sustainability more challenging. Thus, the need for prudent fiscal management and solid macroeconomic policies to mitigate fiscal risks and ensure long-term financial stability is emphasized.